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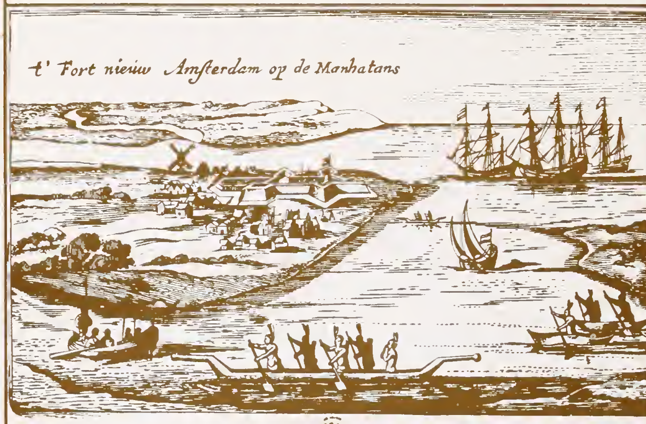
# THE FINANCES:

# PANICS AND SPECIE PAYMENTS,

"Facts Speak."

PHILADELPHIA:
JOHN CAMPBELL & SON.
1874.

A. C. BRYSON & CO., PRINTERS, 607 CHESTNUT STREET.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MEARS AND DUSENBERY,
STEREOTYPERS.

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# THE WRITER'S PREFACE.

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Some few pages of this pamphlet were read before the Society of "The Monks" at Philadelphia and—very much enlarged—is published by request (not of "The Monks," however, but of others), with which I comply both willingly and with reluctance.

The fundamental and dominating problem in respect of a return to specie-payments is stated at page 60 and again at page 69. It is included in the question—*At what volume of circulating notes can the banks of the country resume and sustain a condition of specie-payments?* for I assume that the control of our paper issues will not be left with the Treasury Department after resumption is effected. That we can support a convertible note circulation of $354,000,000, the present authorized issues of the National Banks, is overwhelmingly improbable. No commercial nation ever has done it and at this period of the world's experience there is no probability that any commercial nation can do it. The history of paper money in both England and France is conclusive upon the point. The necessary implication is that we must contract the circulation to the whole extent of the legal tender issues and of the fractional currency—a sum equal to $420,000,000; my own judgment being (I submit it with diffidence though dogmatic in my conviction upon the subject) that we will have to

contract still further and reduce even the present aggregate of the National Bank circulation in order permanently to sustain specie-payments.

What the consequences of so tremendous a contraction must be reason and history both attest.

The attention of the reader is called to the note on page 28 extracted from the sixth volume of Tooke's invaluable "History of Prices." It is important in connection with the allegation that our "shocking bad currency" is peculiarly provocative of speculation, fluctuation and panic. Our currency system is no doubt most defective in many particulars and capable of great improvements, but it is false and unfair to charge upon it evils which are equally chargeable upon a mixed currency or an exclusively metallic system as the conclusions of the Lords' Committee warrant me in saying.

# THE FINANCES.

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THOSE who have watched the course of political events through a long course of years cannot fail to have observed that there are two kinds of political issues: the false and the true. It often happens that to avoid or obscure the true one the politicians seek to force one which is false. An instance of this happened about the time of the passage of the Kansas-Nebraska Act, when an effort was made to divert public attention from the slavery question by inciting fictitious alarms of which Knownothingism was the fruit. Though partially successful at the beginning it was a disastrous failure at the end. The true issue asserted itself despite all the efforts of the politicians to suppress it. The alarm about a "third term" seems to partake of the same fictitious nature: for it was and is an impossible danger

### *The True Issue.*

The real issues are two: THE FINANCES and the pacification of the South. If we deal wisely with the first the second will settle itself; for it was the wise saying of a profound thinker (and I beg your thoughtful attention to this) that the welfare and progress of the Commonwealth depend more upon social amelioration than upon political change. If we can revive the industrial activity of the nation we may rationally

hope for contentment and peace, but if the existing commercial and industrial depression is to be much longer continued race-hostilities will surely grow in intensity and danger. Nothing is more certain than that social and political disorders are the inevitable fruits of industrial inactivity.

### *The State of the Country.*

A multitude of workmen are idle who would gladly work if they could find work to do. Some are wilfully idle of course, and some are unwisely so, but the vast mass of those unemployed are idle upon compulsion. The New York World of the 12th of November said seventy thousand people were out of work in that city, and there are probably fifty thousand in Philadelphia. One hundred and twenty-five thousand people in two cities without labour in the midst of winter! The heart shrinks at contemplation of the loss and suffering and physical deterioration which this mere statement involves. But the worst is not told: in every city and village of the country and among agriculturists more or less labour is idle; New York and Philadelphia being exaggerated types only of the condition prevailing everywhere throughout the whole Republic. Fifty years ago, Lord Brougham, in the course of a debate in Parliament on the repeal of the "Orders in Council of 1812," speaking of the Americans said—"But I freely acknowledge that the sight of one part of America brings to me feelings of envy as an Englishman: I mean the happy distinction that, over the whole extent of that boundless Continent,

from Canada to the Gulf of Mexico and from the Atlantic Ocean westward to the Mississippi, *not one pauper is to be found!*" Alas: fifty years have wrought a dreadful change among us, for poverty keeps steady pace with the progress of wealth.

### *The Panic.*

But we all know the cause of our present evils and sufferings; we owe them to the sudden and calamitous panic of September 1873. It is not worth while to indulge long dissertations upon the causes of the financial convulsions called "panics;" what the people ask is relief from the evils and distresses the panic entailed.

### *The Importance of the Finances.*

"The French finances," writes a distinguished French author, "connect themselves, on all sides, with all our past and present history; with all our history, monarchical and republican, political and religious, economic and social; with all our victories as well as all our disasters, with all the aspects and all the progress of our administration, with all the conquests of our industry, of our agriculture and our commerce, with all the achievements of our art; in a word, with all the epochs which have made famous the name of France. For it must be said, and said whatever men may think of it, *that the finances touch everything, help everything, conclude everything.* They are in the state what blood is in the veins of the human body; if it circulates, it carries along with it motion and life, if it

stops paralysis and death supervene. Good organization, good administration, or good condition of the finances, exert, therefore, imperiously everywhere and always, a positive, healthful and vivifying action" (mark! the writer from whom I am quoting does not say influence, but ACTION :) "upon the government of a country and the prosperity of its people."

Yes! on every side the finances connect themselves with all our destiny, public and private, social and political. American progress has been advanced or retarded as the condition of the finances has been sound or disordered. We have found it so both in war and peace.

### *Three Great Names.*

According to the French writer from whom I have just quoted—there are in the history of France three great names, Jacques Cœur, Colbert, Napoleon I., imperishably connected with the finances at different epochs; so three great names, as immortal as the history of our own country, connect themselves with American financial administration—they are those of Robert Morris, Alexander Hamilton, and Salmon Portland Chase. Each of these has in his turn rendered illustrious services.

But this is a digression.

### *The Remedy for the Panic.*

At the beginning, the remedy for the panic was simple and obvious, and the public opinion of the country unmistakably pointed to its exercise. That remedy was A TEMPORARY ENLARGEMENT OF THE CUR-

RENCY, and was warranted not only by public opinion, but also by ample experience both in Europe and America. The government declined to adopt it, partly because of the clamour against "inflation," but chiefly upon the ground that such an enlargement would be a violation of law. A truly great statesman, recognising the necessity, would have taken the responsibility of the violation—if any was involved—and trusted to the justice of his countrymen for a vindication of his act. But the Federal Government was not in the hands of a statesman at that critical time, and the counsels of bankers and politicians were preferred to the lessons of experience and a pronounced public sentiment. The effects of this policy of *un*masterly inactivity were easily predicted. They involved all the social evils we now suffer, and the retirement of the Republican party from the control of the government. In two or three private letters to the Comptroller of the Currency—written in the sorest pressure of the panic—I ventured to warn that gentleman of the political consequences sure to result if General Grant's administration should adopt the policy of inaction. General Grant's administration did adopt the policy of inaction, and the country justly holds the party of which he is the recognised head responsible for his acts.

### *An Unforeseen Consequence.*

Yes, the remedy at the beginning was simple and obvious, and would have been supported by the suffrages of the people. The temporary expansion necessary to allay the panic might easily have been

retired, immediately upon the restoration of confidence, without difficulty or disturbance, and without action by Congress; but the remedy being rejected, the panic took its course and soon reacted upon the Federal treasury. The revenues declined, and by the time of the meeting of Congress, the Treasury Department was unable to meet current demands. It was the labouring ox that had been gored in September; the Federal bull felt the wound in December; and, presto! that which had been declared illegal when the motive was relief to the labour of the country, became quite lawful when the motive was office-holders' salaries! The "reserve" was drawn upon without scruple, and $26,000,000 of "unconstitutional" legal tenders were floated into the circulation. One-half this sum, judiciously used at the proper time, would have saved the needless and long-protracted and aggravated suffering of the past year; but emitted at the time it was, and under the existing circumstances of the country, it exerted no stimulating effect upon trade. The real effect of it was to add $26,000,000 to the currency; for, after a great deal of wrangling in Congress, this worse than useless expansion was made a permanent part of the circulation. Here was an unforeseen consequence to the statesmanship of the panic, but it was perfectly natural and scarcely avoidable, and among the wise might serve to point a moral.

### *The Remedy for Panics.*

I repeat that the remedy for the panic, at the beginning, was not only obvious, but was warranted by a pronounced public sentiment and by ample ex-

perience both at home and abroad. If financial experience has proved anything, indeed, it is the absolute truth of this proposition. The historical proof is familiar to students of monetary science; nevertheless, I choose to reproduce here brief sketches of English panics before and since resumption of cash-payments by the Bank of England in 1821.

"In 1792," says Mr. R. H. Patterson,[1] "trade had been unusually if not excessively brisk; and, at the same time, as the year progressed political agitation assumed formidable proportions. Acts of riot and insurrection took place, and when war with France was declared at the end of the year, the public disquiet amounted almost to panic. Bankruptcies had doubled in number, and the declaration of war gave a shock to credit which was already staggering. On the 15th of February, 1793, a house of considerable magnitude failed, and on the 19th the Bank of England refused the paper of Lane & Company, who stopped next morning with liabilities to the amount of nearly a million sterling ($5,000,000). In the meantime the panic spread to the bankers. The run commenced on the banks of Newcastle, which were perfectly solvent, but which, in consequence of the run upon them, were obliged to stop payment. The panic immediately spread throughout the country. In the west of Scotland, also, there was the greatest distress from the total destruction of credit, which calamity was produced by the refusal of the Glasgow, Paisley and Greenock banks to discount. The pressure extended also to the London banks. The extraordinary state of credit (to speak

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[1] "Economy of Capital," p. 88.

correctly, the total collapse of credit) had obliged every person connected with trade and money transactions to gather in and husband every resource to meet all demands,—thereby, of course, greatly lessening the ordinary circulation. In these circumstances, the Government urged the Bank (of England) to come forward and support credit, but the Bank resolutely declined. When the Bank adopted this perverse course, universal failure seemed imminent. The Government, however, with Pitt at its head, wisely took the matter into its own hands; and, acting upon the advice of Sir John Sinclair, made an issue of Exchequer bills, which acted like magic in sustaining credit and at once put an end to the crisis. The amount authorized to be issued was 5,000,000*l.* in sums of 100*l.*, 50*l.* and 20*l.*, but not half of that amount (only 2,202,000*l.*) was needed, and the whole of this sum was repaid.

"The panic of 1797 was produced entirely by political causes. There had been no overtrading of any kind. In December '96 took place the French expedition under Hoche for the invasion of Ireland, and in the February following a French frigate landed twelve hundred men on the Welsh coast At this time the Banks at Newcastle had a more than ordinary demand upon them for cash, because, in addition to the manufactories and collieries, the number of troops stationed in that part of the country had been considerably augmented. The banks had imported an extra amount of cash to meet their expenses, and were negotiating for more when the panic broke upon them and compelled them to stop. The news of the stoppage of the Newcastle banks spread like wild-fire

throughout the country and soon reached the Metropolis. The drain upon the Bank of England now became a run, till on the 25th of February the specie was reduced to 1,272,000*l*. Before this, the directors of the Bank, in a state of utter bewilderment at the circumstances of the country, had used the most violent efforts to contract their issues. In five weeks they had reduced them by nearly 2,000,000*l*. But even this gave no true idea of the curtailment of mercantile accommodation, for the private bankers were obliged, for their own security, to follow the example of the Bank. Next day (Sunday) to prevent the total stoppage of the Bank, an Order in Council was issued authorizing it to suspend cash payments. The relief produced on the instant by the definite determination to suspend cash payments and the issues of paper was very great: within one week the Bank had increased its accommodation by nearly 2,000,000*l*. sterling. The notes were taken as readily by every one when it was known there was no gold to cash them as when the Bank was abundantly supplied with specie."[1]

Announcement of the suspension of specie payments was made on Monday the 26th of February, and so far as the convertibility of its notes was concerned, the Bank remained in a state of suspension until May 1821, a period substantially of twenty-five years. There was of course more or less financial disturbance

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[1] From R. H. Patterson's "Economy of Capital," pp. 88, *et seq.* Mr. Patterson quotes largely, however, from Mr. H. D. MacLeod's "Theory and Practice of Banking," a book of great interest and value, in which the reader will find a vast amount of information.

during this long interval, partly because of the varying fortunes of war and partly from other causes, and bank-notes depreciated, although the friends of the paper-money system alleged that the price of bullion had risen, because of government demand for its use in foreign countries, which had drained the kingdom of almost its whole supply. At one time the difference between coin and bank-notes was as great as 40 per cent. A fierce controversy arose between the bullionists and the paper-money advocates, which is not ended even yet. In 1810 the famous Bullion Committee was appointed, the general purpose of which was an inquiry into the currency and foreign exchanges. This Committee examined a great number of witnesses—bank directors, private bankers, merchants, and others—and it is not a little remarkable that the larger number of them, and they were all practical men, opposed the allegation that bank-notes were depreciated. It is my purpose, however, to refer (in this place) to one of its conclusions only, which was, that when a great and sudden failure of confidence occurred, a judicious increase of accommodation—in other words, an EXPANSION OF THE CURRENCY—*was the proper remedy.*

In 1819, in order to put the currency question "at rest forever," as a distinguished bullionist alleged, the Bank was required by Act of Parliament to resume payment of its notes in standard coin by a specified date in 1823. This act was passed without a dissenting voice, an unbelieving member of the House of Commons being induced to withdraw, it is said, in order that the affirmative vote might be unanimous. The exultation of the friends of the measure was ex-

cessive, and they predicted with a boundless confidence that its adoption would put an end to all financial disorders and embarrassments, and inaugurate the era of lasting and universal prosperity.

The Bank was able to anticipate the time fixed by the Act of Parliament, and actual resumption took place in 1821, under what circumstances and with what immediately attending disasters, I shall detail hereafter.

But the act which was to set the "currency question at rest forever," utterly failed of its object, for within three years—that is in 1825—occurred one of the most destructive financial convulsions known to English history. It is commonly called *the* panic.

In February of that year (1825), the King congratulated his people upon their prosperity, and a distinguished member of his Council declared that "the country was reaping in honour and repose all that had been sown in courage, constancy and wisdom."

At the time of these utterances the bullion in the Bank of England amounted to nearly fifty millions of dollars, and its notes circulating among the people aggregated about one hundred millions. The bullion of the Bank, however, was steadily diminishing (and had been during the whole of the year 1824), to meet demands for export; but instead of reducing its emissions the Bank enlarged them, and persisted in this until May, when it suddenly reversed its policy and began a course of contraction. This did not stop the drain of bullion, but rather accelerated it, and by the end of October the whole stock in possession of the Bank was reduced to a sum very slightly over fifteen millions

of dollars. The pressure was now extreme, and every hour added to its severity. On the 29th of November announcement was made of the failure of two great banking establishments in the country, and by the 3d of December (Saturday) THE PANIC had fairly set in, and all London was thrown into the most violent alarm and consternation. Sunday intervened, and hopes were entertained that on Monday a better feeling would prevail, but Monday came without abatement of the terror of Saturday. The excitement was wilder than ever, and under its influence the great city house of Sir Peter Pole & Co. stopped. The announcement of this event was followed by a run upon all the London bankers, and several gave way. The Bank of England was itself upon the very verge of suspension, for at the end of the week,—that is on the 10th of December,—the bullion in its vaults was reduced to ten millions of dollars, and by the following Wednesday to a sum little more than six millions, with a continuing demand. During Monday and Tuesday of that memorable and most disastrous week (as was afterward said in the House of Commons), it was impossible to convert into money to any extent the best securities of the government. Sales could not be made of Exchequer bills, nor of Bank or East India stock, nor of the public funds: men would not part with ready money upon any terms nor for any security. Before the crisis ended, sixty-three country banks suspended, and many mercantile houses of entire solvency succumbed to the pressure.

By what means was this devastating financial storm arrested? They were very simple.

The crisis was at its height from Monday the 12th to Saturday the 17th of December. Up to the night of Wednesday the Bank of England had restricted its issues: but at that time, becoming sensible of its error and resolved to make common cause with the country, the Bank reversed its policy, and between Wednesday and Saturday issued circulating notes to an amount exceeding \$25,000,000! "This audacious policy," says Mr. MacLeod, "was crowned with the most complete success: *the panic was stayed almost immediately.* . . . . All contemporary evidence proves that it was this profuse issue of 5,000,000*l.* of paper in a few days that stayed the panic. If the Bank had persevered in the restrictive policy three days longer, the total and entire destruction of commercial credit would infallibly have ensued."

This is, in brief, the history of the great and terrible convulsion of 1825. It happened under a specie-paying system, and within three years of that memorable enactment of the British Parliament which was to "restore soundness and stability to the circulation" and make panics impossible. The efficacy of the remedy adopted was most astonishing: the panic was not only allayed, but banking and commercial credit was immediately restored, trade was revived, and a needless and protracted period of suffering was averted. *

Similar but less disastrous panics happened in 1836 and in 1839, and from the latter year to the end of the year 1843, a general commercial stagnation prevailed throughout all England, accompanied by a corresponding degree of suffering among the labouring population. The calamities the country had undergone



* See VIII Knight's History of England, Ch. XI.

in 1825, 1835–6 and 1839, and the long-continued distress from 1839 to the end of the year 1843, were commonly attributed *to the power of the bank to overissue notes, notwithstanding the obligation to redeem in coin. To prevent overissue*, and in order *that the paper circulation should at no time be greater in amount than the circulation would be if it were composed exclusively of coin*, Sir Robert Peel proposed, in 1844, a restriction upon the power of the Bank to issue notes, by separating it into two departments, respectively of issue and banking, with distinct offices for each and different systems of accounts. The issue department was to be allowed to emit 14,000,000*l*. notes upon government securities, and *any* amount in excess of 14,000,000*l*. if represented pound for pound by bullion actually in the vaults of the Bank; although *all* the notes of the Bank, whether issued upon the foundation of public securities or against bullion, were to be payable in coin upon demand. The plan was adopted, and there was a wide concurrence in the belief that its effect would be to prevent overissues, speculation, and recurring panics. The plan was certainly as near an approximation to a "perfect paper-money system," as human ingenuity was likely to devise; but its projectors and advocates forgot that the vast credit system which is at once the glory and misfortune of our modern civilization and the source of all speculation and panic, will prevail as widely under a metallic currency as under one purely of paper. The proof was not far distant.

"The next great crisis," says Mr. Patterson,[1] "was

[1] "Economy of Capital," p. 103, *et seq.*

that of 1847; previous to which, by the Act of 1844, all liberty of action had been taken from the Bank in regard to its issues of notes, which were made entirely dependent upon the amount of specie in its possession. The extreme pressure in this crisis began on the 23d of September, when the Bank adopted more stringent measures for curtailing the demand upon its resources. On the 15th of October it refused to make advances either on government stock or on Exchequer bills: the consequence of which was that the other banks hastened to sell their public securities, and for their own safety hoarded the notes received in payment—thus still further reducing the circulation. What they could not get from the Bank in advances on their securities, they got by the sale of them; so that the only effect of the Bank's restrictive policy was to create panic and hoarding, which immensely increased the difficulties of its position. Everything became worse day by day. Several large banks stopped payment in Liverpool, Manchester, Newcastle and other towns, and the drain upon the Bank of England became greater than ever. As the whole commercial world knew that the resources of its banking department were being rapidly exhausted, a complete panic seized upon it. A cessation of private discounts took place. No one would part with money or notes in his possession. On the 23d of October the terrible game was played out. The Bank Act had to be suspended, and the Queen's government, with a view to restore confidence to the mercantile community, recommended the Bank directors *to enlarge the amount of their discounts and advances* (that is, to expand the currency!) What

followed? The government letter was made public about one o'clock on Monday the 25th, and no sooner was this done than the panic vanished like a dream. Mr. Gurney stated that it produced its effects in *ten minutes!* No sooner was it known that notes *might* be had than the want of them ceased." The whole amount of notes issued was under 400,000*l.*

"The crisis of 1847 was the most severe which had occurred, but it was surpassed in disaster by that which followed ten years after. In 1857 a wave from the American crisis crossed the Atlantic, and produced an equal crisis in our own Islands." After describing the causes of this panic, Mr. Patterson proceeds: "No crisis was ever so unexpected; none ever culminated so rapidly or proved so destructive. Credit was shaken, and a run commenced upon several banks which were known or supposed to be connected with the suspended firms. The Liverpool Borough Bank, closely connected with the American trade, stopped payment. Denniston & Co., likewise closely connected with the American trade, had also to suspend, with liabilities to the amount of 2,143,701*l.*; and after reeling for some time under the run made upon it, the Western Bank of Scotland likewise closed its doors. Great exertions were made in Glasgow by the authorities and leading merchants to arrest the panic: the other Scotch banks, alarmed at the aspect of affairs, and urged thereto by the community, at length came forward to check the distrust, and gave their united and most energetic support to some of their number which were run upon. Thursday the 12th was the last day of the panic in Scotland.

"Meanwhile the crisis had spread to London. The Bank had raised its rate rapidly from 5 to 10 per cent.; and as all the discount houses in London ceased to make advances, the accommodation given (or which under the act could be given) by the Bank, was totally inadequate. The more tight the money market became, the faster were gold and notes withdrawn from the Bank. Every bank or firm sold its securities, and kept beside it the gold or notes thus obtained. In order to meet the run upon them, the Scotch banks had ordered about 1,000,000*l.* sterling in sovereigns from London—which they obtained by selling a portion of their government stock (which, being readily convertible, they always hold in reserve for such emergencies), and thereafter getting the notes received in payment cashed at the Bank of England. The English and Irish banks took similar precautions; and altogether, in consequence of the panic, the banks found it necessary to keep about them three millions more than their ordinary amount of specie. On Wednesday, the 11th, the great discount house of Sanderson & Co. was forced to suspend, with liabilities to the amount of 5,298,990*l.* sterling. The great American firm of Peabody & Co. also was known to be *in extremis.* It was perfectly solvent, but, like other firms, it had for the time to lie out of its money, and thus was unable to meet its engagements. It was of the utmost importance to support this firm, as it was known that its fall would bring down many others, and establish a general panic in London. Peabody & Co. required assistance to the extent of 800,000*l.*; but the Bank, fettered by the Act of 1844, had not this sum to ad-

vance. But no sooner was the act suspended (on the afternoon of the 12th), than the Bank" was enabled to extend its issues; "the required sum was advanced to Peabody & Co., and in like manner aid was extended to many other firms, and to some English banks. In London, Liverpool, Manchester, Birmingham, indeed, all over the country, as every one will remember and as is proved by the trade-reports now lying before us, the beneficial effect produced by the suspension of the act, *and the resolution of the Bank to extend its issues, was instantaneous.*"[1]

"This authorization," says Mr. Gilbart,[2] "which was given on the 12th, at once quieted the public mind; but there was this notable difference between the effects of the first suspension of the Act in 1847 and of the present, that whereas in that year the mere notice of suspension had operated as a charm, and notes to the amount of only 400,000*l.* were actually issued in excess of the statutory limit, in 1857 the Bank issued, from November 13th to the end of the

[1] "The number of solvent, indeed very wealthy firms," says Mr. Patterson, "which had to suspend during this crisis was remarkably great; and the fact throws an important light upon the character of such crises, and upon the best means of averting them. The suspension of Denniston & Co., for example, which was one of the first houses to give way, was so entirely artificial, that, after providing for every shilling of their liabilities, the accountant of the estate declared them possessed of a surplus of nearly three-quarters of a million. The suspension of Naylor, Vickers & Co. was of a similar character; the firm having assets to discharge all their debts with a balance in their favor of 280,000*l.* Sanderson & Co., with liabilities to the enormous amount of 5,298,000*l.*, paid in full and resumed business; and a large portion of the other suspended firms were proved in like manner to be perfectly solvent."

[2] "The Principles and Practice of Banking," p. 281.

month, no less than 6,776,000*l.* of notes beyond the limit (14,475,000*l.*; now raised to 15,000,000*l.*) fixed by the act."

The panic of 1866 still further illustrates the principle under consideration. The difficulties which brought on the great convulsion of May 1866 began in January; in February the failure of the "Joint Stock Discount Company created a general alarm, for the reason," says Mr. Henry Durning MacLeod, "that the doings of this company were merely a type of a large amount of business which was known to have been engaged in by numerous other companies. In March, Barned's Bank at Liverpool stopped payment, with liabilities of upwards of three and a half millions. Several great railway contractors also suspended, involving in discredit the companies with whom they were known to have *financed*.

"On the 3d of May the Bank of England raised its discount to seven per cent. Every one now felt that the long-dreaded crisis was at last come. The air was thick with rumours, and it was now known that it was merely a question of weeks, perhaps of days, when the storm should burst. On the 8th of May the rate was raised to eight per cent. . . . . On the afternoon of Thursday, May 10th, the terrible news spread through London that the great establishment of Overend, Gurney & Co. had stopped payment, with liabilities exceeding 10,000,000*l.* It was the most stupendous failure that ever took place in the city. The news was spread after banking hours, but every one could foresee what the effect would be next morning. The Chancellor of the Exchequer said the next evening

in the House of Commons that the excitement was without a parallel." The morning papers of Friday, the 11th, contained an announcement of the stoppage, which created a prodigious excitement. "The 11th of May," said the distinguished French economist, M. Wolowski, "will be long remembered in London: it was a day of distress and terror, and seemed to be the signal of a general ruin. No one was sure of any one else, nor even of himself, the moment it became known that the great house had closed its doors. It was by hundreds of millions that the engagements of that gigantic financial firm, whose fall made the very ground tremble, were counted. The settlement of a great portion of the commerce of the world is concentrated in England; the settlement of the commerce of England was concentrated in London, and the house of Overend, Gurney & Co. held one of the foremost places among the small number of establishments in whose houses is the settlement of the commerce of the city. For a long time it enjoyed immense credit; it disposed of enormous securities; a renown more than European had multiplied the number of its customers and augmented the amount of deposits confided to it. Thus, the fatal Friday which witnessed the disaster continues to be popularly known as 'Overend Friday.'"

On the evening of that "Black Friday" announcement was made that the Ministry, following the precedents of 1847 and 1857, had informed the Bank that if they thought proper to make advances beyond the limit fixed in 1844, the government would bring in a Bill of Indemnity. "This announcement," says Mr.

MacLeod, "produced next morning the best effects. The Bank raised its rate to 10 per cent., but everything was calmed down, and though subsequent to this some other stoppages took place, yet the knowledge that the Bank had power to make advances on good securities, abated the panic." "The third announcement of the suspension of the Bank Act," says Mr. Gilbart, "operated, for the third time, like a charm;" and in the course of five days the Bank of England made advances to the amount of over 12,000,000*l.*!

Our domestic experience has not been so pronounced and decisive as that of Great Britain; but in 1863, Mr. Cisco, Assistant Treasurer at New York, with the concurrence of Mr. Chase, extended relief, with most beneficial results, to the banks of that city at a very critical time; and notably in 1866, but also upon other occasions, Mr. McCulloch exercised the powers of his office as Secretary of the Treasury, as is well known, to avert monetary disasters. These instances, however, are not less illustrative, in kind and degree, of the efficacy of the principle of enlarged issues to fill the void in the circulation always attendant upon panic than those of England.

### *Hard-Money and Panics.*

But we may learn another lesson from the experiences just recited, and it is this: That panics are not peculiar to our paper-money system, as has been alleged by uncandid bullionists, any more than they are peculiar to a hard-money system.[1] So long as ninety-

[1] Mr. Gilbart says: "Although it be true that each monetary crisis is in large part produced by a distinct proximate cause, yet the primary

eight per cent. of the exchanges of a country proceed upon credit, as is the case in both Great Britain and the United States, just so long will financial panics recur with more or less violence and frequency. To prevent them entirely is out of the question; how to lessen their violence and mitigate the evils and miseries they entail, should be the inquiry of the political economist and the business of the statesman.

### *Specie Payments.* of 1873

No sooner, however, was the panic under full headway, than, in the very midst of the consternation and suffering it produced on all sides—except among those of large ready-money means—the clamour for an immediate return to specie payments grew largely in volume. They who made it were not many in number, nor did they represent the public sentiment (for public sentiment everywhere throughout the country was overwhelmingly against them), but they were able

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cause of each and all is inordinate speculation begotten of the lust of gold. Men are in haste to be rich. This is no new thing. It has been observable in all times and in all countries. But the fact is more patent now than ever. Men live, as they journey, at railroad pace. So long as appearances can be kept up, they lay the flattering unction to their souls that some lucky hit will make all right. Honesty gives place to expediency. Shifts, evasions, trickery, undermine the moral sense and grow into confirmed habits. The shams of private life are transported into men's public business. To seem is to be. Existence is undervalued unless men can grow to what they seem as respects wealth, that is; or, at least, can manage to make 'Brummagem lacquer' look like gold. Hence petty frauds develop into gigantic swindles. Covetousness,—a maddening desire to bound at once, say from competence to riches,—hurries the flies into the meshes cunningly woven for them, and the weak become the victims." Mr. Gilbart is writing of events that happened under a coin-paying system.—*Principles and Practice of Banking*, p. 295.

and audacious, and were supported by what Edmund Burke calls " the most dangerous of all parties, an extensive discontented moneyed interest," and the leading journals of the country, in both parties, were in the hands or control of men of wealth, whose private fortunes would be largely enhanced if specie payments could be restored. They declared that the panic was due to the existing currency system and was inseparable from it; that until specie payments were resumed the public creditor was the victim of a fraud and an imposture, and that the national honour was therefore deeply concerned in immediate resumption ; that the depreciation of the currency was productive of great evils, because of the fluctuations in its value relatively to coin ; and that there could be no solid and enduring business prosperity until the national currency and coin were at a permanent par. They quoted books of finance in support of these allegations, and brought to bear in their favour every fact of history at their command; but they banished out of sight equally important facts, as if adverse facts had no bearing upon the subject. Many leading members of the great political parties—chiefly the men of large property—joined in this hard-money crusade, and party conventions, Democratic and Republican, in several of the states have declared in the same direction.

But the great body of the people are hostile to the heroic treatment of the currency question proposed by the bullionists; not because they are irreconcilably opposed to a specie-paying system, for they are not, but because, with intuitive and most sagacious judgment, they clearly foresee that, in the present extra-

ordinary circumstances of the country, immediate resumption would be productive of extensive and even dangerous social and political calamities.

Nevertheless, the allegations of the bullionists are of great importance, and if true ought to determine the people in their political action.

### *Let Facts Speak.*

It has already been abundantly shown that panics are not peculiar to our currency system.[1] Between

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[1] In 1848 committees were appointed by the British House of Lords and also by the House of Commons to inquire into the commercial distress of the preceding year. A large number of merchants and bankers were examined before both these committees, with substantially the same results so far as the testimony went. The Lords' committee made a report of great value and importance, in the course of which they announced these conclusions:—

"It is true that to those who may have expected that the Bank Act of 1844 would effectually prevent a recurrence of cycles of commercial excitement and depression, the contrast between the years 1845 and 1847 must produce grievous disappointment." (The reader will not have forgotten that the act here referred to was that of Sir Robert Peel, the purpose of which was to secure the convertibility of the bank-note under all circumstances, and to so regulate the paper circulation as that it could not, at any time, be greater than the circulation would be if composed exclusively of coin.)

"To those who anticipated that the act would put a check on improvident speculation, the disappointment cannot be less, if reliance is to be placed (as the committee are confident it may) on the statement of the Governor of the Bank, and of other witnesses, *that speculations were never carried to such an enormous extent as in* 1846 *and the beginning of* 1847.

"If the act were relied on as a security against violent fluctuations in the value of money, the fallaciousness of such anticipation is conclusively proved by the fact that whilst the difference between the highest and lowest rate of discount was in the calamitous years 1837 and 1839 but two and a quarter to two and three-quarters per cent., the difference in 1847 rose to six and three-quarters.

"If it was contemplated that the number and extent of commercial

1857 and 1873 the American people were free from those destructive financial storms which almost from the beginning of the century to and including the former year, had swept the whole extent of the country in every decade. Under the monetary system which prevailed prior to the rebellion, it was not in the power either of the banks or of the Federal Treasury to afford efficient relief in seasons of pressure. But

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failures would have been lessened, the deplorable narrative of the Governor of the Bank, recording the failure of *thirty-three houses*, comparatively in large business, in London alone, to the amount of 8,129,000*l.* ($40,645,000), is a conclusive reply.

"If the enormous extent to which railroad speculation has been carried, be considered as an evil to which a sound system of banking could have applied a corrective, such a corrective has not been found in an act" (which the reader is reminded was considered by the hard-money men the final attainment of hard-money wisdom), "since the passing of which, during a period of three years, an increased railway capital of 221,000,000*l.* ($1,105,000,000) has been authorized to be raised by Parliament, and when the enormous sum of 76,390,000*l.* ($381,950,000) is stated, on high financial authority, to have been actually expended on railways in two and a half years.

"If the power of obtaining banking accommodation on moderate terms were considered to be promoted by the Act of 1844, it cannot be said that this important object has been attained, since it appears in evidence that in 1847, *in addition to an interest of nine or ten per cent. a commission was also frequently paid, raising the charge to ten, twenty, or thirty per cent. according to the time which bills had to run.*

"The committee are fully aware that alternations of periods of commercial excitement and of discredit, of speculation and of collapse, are likely to arise under all systems of currency; that it would be visionary to imagine that they could be averted altogether, even if the circulation were exclusively metallic. But it is on this account that greater care should be taken to avoid increasing an evil, perhaps inevitable, by any arbitrary and artificial enactments." And the committee proposed that the act should be amended by the introduction of a "Discretionary Relaxing Power," to be exercised, however, only during a favourable exchange. To these general views, Mr. Tooke gives the sanction of his name and authority. See Tooke on Prices, vol. VI., p. 497, *et seq.*

during the war, with the resources of the present system at his command, Mr. Chase was able more than once (as I have already stated) to avert financial disasters; and Mr. McCulloch afterward, conspicuously in 1866, followed his example. Neither Mr. Chase nor Mr. McCulloch could have rendered these great public services,—great public services, I say, and by no means the least important of their respective administrations—but for the adaptability of a paper currency to meet sudden financial emergencies.[1]

### *The Public Creditor.*

But it is declared that the continued inconvertibility of legal tender notes is a fraud upon the public creditor, and therefore wounding to the national honour. If this were true, it would be a matter for the gravest consideration and the promptest redress in the power of the people to make. But it is not true. The bonded debt of the United States sells to-day in the markets of the world at the par of American gold coin, and the public faith of the nation was, in 1869, solemnly pledged by Congress to the payment of that debt, principal and interest, in our current coin. So

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[1] "Whenever merchants have a want of confidence in each other, which disinclines them to deal on credit or to accept in payment each others' cheques, notes or bills, more money, *whether it be paper or metallic*, is in demand; *and the advantage of a paper circulation, when established on correct principles, is, that this additional quantity can be presently supplied without occasioning any variation in the value of the whole currency*, compared with bullion or any other commodity; whereas, with a system of metallic currency, this additional quantity cannot be so readily supplied, and when it is finally supplied, *the whole* of the currency, as well as bullion, has acquired an increased value."—Works of D. Ricardo, by J. R. McCulloch, page 399.

far there has been no default in respect to that promise, and there will be none. No matter what party politicians may resolve in party conventions, or partisan newspapers allege in times of controversy, it is at once an infamous falsehood and an infamous outrage to charge that any portion of the people, East or West, are in favour of repudiation, or of anything less than a fulfilment, in perfect good faith, of all the national obligations. But this fulfilment, in good faith, of all the national obligations, requires no sacrifice of the national justice. That is a false and fantastic devotion to the national honour which exacts a universal oppression to serve the interest of the public creditor.[1]

It may truly be said, then, that so far as the interest-paying debt is concerned, the public creditor has no just ground of complaint. He receives, strictly in accordance with the Government agreement, in payment of interest, *the current coin of the Republic of the legal weight and fineness*, and on maturity of the debt, the principal will be paid in the same way. When a demand is made that the value of the coin shall be augmented by ten or twenty or fifty, or even one per cent., a new contract is proposed rather than an honest compliance with the old one.

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[1] "It is to the property of the citizen, and not to the demands of the creditor of the state, that the original faith of civil society is pledged. The claim of the citizen is prior in time, paramount in title, superior in equity. * * * * * The public, whether represented by a monarch or by a Senate, can pledge nothing but the public estate, *and it can have no public estate except in what it derives from a just and proportioned imposition upon citizens at large.* This is engaged, and nothing else can be engaged, to the public creditor."—Edmund Burke, "Reflections on the Revolution in France."

The drift of this is not difficult to be seen. Immediate resumption of specie payments would enormously enhance the value of our gold coin: in my judgment the contraction indispensable to enduring resumption, would depress prices, throughout the whole range of commodities, thirty to fifty per cent., and this vast confiscation of the property of citizens, equally entitled to public protection with the public creditor, is deemed necessary, it seems, to support and preserve the national honour!

It is impossible to deny that the position of the bill-holder is by no means so satisfactory as that of the bondholder. It must be admitted, however, that the bill-holder is not a public creditor in the distinct and emphatic sense in which the bond-holder is such. The bond-holder seeks the Government obligation, because the Government is the most convenient and responsible debtor within his reach. The engagement of the Government, in this case, is clear and specific, particularly set forth in the bond, fixing time and place and the nature of the payment to be made, thus responding to the particular objects of the creditor, which are safety and profit.

Is this true of the bill-holder? It certainly is not true. If two hundred millions of United States notes pass daily between citizens in exchange of commodities, probably not one of the ten or twenty millions of those who receive and pay them, thinks of the Government as his debtor, or has the remotest thought of demanding redemption of the notes in coin. Every one knows the "promise to pay" imprinted upon them to be conditional, and no one doubts their ulti-

mate redemption. The purpose of their issue is perfectly understood; they are intended to form, and do form, our current instrument of exchange; their credit is established, their value sure and uniform, and they perform all the functions of money with as effective an energy as coin would if coin were the exclusive circulation. About this there is no shadow of doubt; nor can there be any doubt that, if the whole United States notes and National Bank notes were reduced in volume to four hundred millions, they would be as valuable as four hundred millions of standard gold, though there might not be a single dollar of gold coin available for their redemption. That the currency is excessive may be admitted, but the business of the country has adjusted itself to the volume as it exists; and prices would be just as high if the circulation were composed of eight hundred millions of gold dollars instead of eight hundred millions of paper ones.

In this view of the case, it seems to me a mean and indefensible exaggeration to talk of "rag money," "national bankruptcy," "violated national honour," "repudiation," and the like. Such phrases confound all fair discussion, and lead us no single step nearer the truth. It is incumbent upon those who indulge this sort of declamation to prove that the existing currency system is attended by evils which a coin circulation would avert; and this, I confidently allege, they cannot do. There is no evil attending upon it which, in kind and degree, has not attended upon the coin-paying system of Great Britain; the only mixed-currency system in the world which operates automatically, as an exclu-

sively metallic system would operate if there were no paper notes for redemption.

*Our Currency Inimical to Sound Business.*

It is said, finally, that our paper-money is inimical to permanent business prosperity. Let facts speak, and they do not bear out this allegation. The most brilliant period in the history of material progress in Great Britain was that during which inconvertible bank-notes formed the exclusive circulation of the empire. An average population of eleven and a half millions, living upon an island of 175,000 square miles of sea and land (with a total surface of 77,513,000 English acres, less than 46,000,000 of which is under cultivation at this very day), without one-half the industrial appliances of this time, raised and expended in a period of twenty-four years of war,—that is between 1792 and 1816 inclusive—by loans and taxes, FIVE THOUSAND FOUR HUNDRED AND TEN MILLIONS OF DOLLARS! (exclusive of debt at the close of the wars) besides during the same period more than doubling the national wealth!

Between 1861 and 1870, and inclusive of those years, notwithstanding the pressure of a most wasteful rebellion during five years of that time, the people of the United States (I do not include in this any of the expenditures of the Confederate States) raised and expended by loans and taxes, FOUR THOUSAND THREE HUNDRED AND FIFTY-ONE MILLIONS OF DOLLARS! (and this exclusive of the public debt remaining at the end of the war), besides increasing the aggregate of the national wealth from sixteen thousand millions in 1860 to twenty-five thousand millions in 1870. It is no

wonder that the people look back to that brilliant, exciting and destructive period, with fascinated imagination.

At a future time, I shall show by facts which are demonstrations, that between 1866 and September 1873, when the panic broke loose in New York, the variations in the prices of commodities were no greater (though higher) in the United States under a "shocking bad" currency system than they were in England during the same period under a system which is held up as the greatest achievement of hard-money wisdom!

In a word, there is no function of hard-money which the current paper-money of the country does not perform as promptly, as certainly and as safely as coin would if there were no paper-money. This refers to our domestic exchanges of course.

All the same, gold and silver are the best money, though it is quite within the limits of human achievement that a paper-money system may ultimately be devised which will supersede the use of coin. I may quote in support of this thought, the words of an English economist of great and deserved distinction: "A well regulated paper currency," says David Ricardo, "is so great an improvement in commerce, that I should greatly regret if prejudice should induce us to return to a system of less utility. The introduction of the precious metals for the purposes of money may with truth be considered as one of the most important steps towards the improvement of commerce and the arts of civilized life; but it is no less true that, with the advancement of knowledge and science, we discover that it would be another improvement to banish them

again from the employment to which, during a less enlightened period, they had been so advantageously applied."[1]

*Depreciation and Fluctuation.*

But it is said that our currency is depreciated relatively to gold, and that it fluctuates in value. That it is depreciated no one can deny, but we must distinguish between a true depreciation and one purely artificial. The true depreciation is two to five per cent.; all further difference is due to that unwise and indefensible policy of the Government which made the interest on the public debt payable in coin. This established a necessity for the compulsory presence in the country of a stock of specie approximating in in amount to the sum required to pay interest on public debt in each year; and no one need be told that the pressure of this necessity has exerted a powerful action upon its price. Were this abnormal pressure removed, the excess of coin would go abroad in the natural course of trade, as more than a thousand millions have gone since 1860; and we should behold the curious spectacle of a reduced price with a diminished stock! and at the same time, the real measure of depreciation would be accurately ascertained.[2]

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[1] "Works of David Ricardo," by J. R. McCulloch, page 404.

[2] Bonamy Price, Professor of Political Economy in the University of Oxford (England), and a respectable authority in financial science, arrived in New York in September last. A day or two afterwards he was "interviewed" by a representative of the New York *Tribune*. At the very outset of the interview Mr. Price denounced our currency as "shocking bad." Further on, he was asked whether he considered the current premium on gold, as quoted in the street, to be a tolerably accurate measure of the depreciation of legal tender notes. Mr. Price said he

It is said, also, that our paper-money fluctuates in value. So it does. But the same may be said of money in all commercial countries, and in no kingdom of the world more so than in England, where they have a monetary system which is the very darling of the genuine hard-money men. Since 1860 there have been a hundred and fifty variations in Bank of England rates, and interest and commissions have been paid, by parties of undoubted solvency, ranging all the way from two and a half to twenty per cent. And it is utterly puerile to expect that a return to cash payments will prevent fluctuations of money as great and as frequent as under the present system, and I doubt whether any man of candour and information *does* expect it.

*Specie Payments.*

Were it proved, however, a hundred times over, as probably it could be, that there is no evil attendant upon a well regulated paper-currency system which does not attend, both in kind and degree, upon a mixed-currency or even exclusively-metallic system, the demand for a return to specie payments would go on all the same. I do not deny that ultimately resumption is desirable. The reason is that gold and silver are true money: their value is everywhere, the world over, known and recognised, and as few artificial impediments as possible should be put upon the intercourse

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was not aware of any circumstances to show that it was not. I cannot help thinking that it was questionable taste for Mr. Price thus to darken counsel without knowledge. A professor of political economy who undertakes to denounce the currency of the country as "shocking bad," ought at least to acquaint himself with all the facts necessary to form a sound judgment.

of mankind. "A Universal Money," if such a thing were attainable, would be a grander and more effective peace-maker than all the "International Congresses" and "Parliaments of Man" that could be assembled in Central Park. Nevertheless, in mere local effects, there is probably very little material difference between a well regulated paper-currency system and a mixed-currency.

But there must be, according to the unconditional bullionists, no delay in resumption. The great work must begin at once.

### *The Vital Question.*

"Behold Leviathan! can'st thou put a ring in his nose or bore through his jaw with a buckle?" Job xl. 21.

This, then, becomes the vital question,—By what means is resumption to be effected? The answer is simple and brief: BY CONTRACTION; stern, unrelenting and persistent contraction. This is the infallible process and there is none other. All methods not based upon contraction ought to be entitled, "Plans to resume without resuming." They proceed upon the idea that a nominal resumption will answer the purpose; but mere trickery wont do. We must have a stock of coin adequate to all demands. We must contract the currency till prices are depressed below the level of prices in Europe: when our commodities are cheaper than gold is dear and profitable in foreign countries, then foreign gold will flow in upon us and the product of our mines will remain at home. To

effect all this the natural tide of trade must be reversed; a vast destruction of the property of innocent and unoffending citizens must take place, a frightful and wide-spread suffering be inflicted, crime and pauperism enormously increased, and the danger even of political calamities incurred. There is no thoughtful citizen who will not view these consequences with a prefound apprehension; and that they are almost certain to follow upon excessive contraction reason and history alike attest. The experience of England, in a similar conjuncture, is important and conclusive.

*Suspension of the Bank of England.*

You will recollect that the Bank of England suspended specie-payments, under the authority of an Order of the King's Council—subsequently approved by Parliament—in February 1797, and, so far as the convertibility of its notes was concerned, remained in suspension till the summer of 1821. a period of substantially twenty-five years. During this long interval the circulation of the United Kingdom was composed wholly of inconvertible notes of the Bank of England and of the country banks. For two years after suspension. "the currency may be considered as having been at the strictest bullion level with the rest of the commercial world, or, if anything, at a somewhat higher value, as the exchange on Hamburg from January to March of 1799 was higher (lower) than it had been for any length of time before the suspension."[1] In the fall of 1799 "a combination of circum-

[1] Tooke's "History of Prices." Vol. I., p. 240. The English method of computing the dearness or cheapness of foreign exchange is directly the

stances arose," says Mr. Tooke, "which entailed the payment of unusually large sums abroad," and the exchanges on Hamburg fell (rose), and bills to a limited amount only were available. The alternative was to send bullion, which was exported in large quantities, but up to September 1799 "the market price of standard gold had continued at 3*l.* 17*s.* 6*d.* per ounce, though the price of foreign gold in coin had been somewhat higher, on account of its greater use as coin than as bullion. But in June 1800 the price of gold experienced a sudden and extraordinary rise; it rose to 4*l.* 5*s.* per ounce; silver rose also, and the foreign exchanges fell below par. In January 1801 gold and silver had each risen 1*s.* per ounce, and the exchange on Hamburg was at 29*s.* 8*d.*, being a depression of 14 per cent. below par."[1] The increase in the Bank-note circulation, however, did not fill up the void occasioned by export of the precious metals;[2] nevertheless, a rise in the prices of provisions took place, coincident, however, with a similar rise upon the Continent. This state of facts led to an almost immediate discussion of the "currency question," which, in time, grew to be heated and virulent. The bullionists charged the rise in prices to an excess of inconvertible Bank-notes, which of course was vehemently denied by the friends of the Bank and of the existing Ministry. Meantime, as the years wore on the difference between coin and

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opposite of our American method. Suppose, for example, two different rates for bills on Hamburg; in one case, a 100*l.* bill costs 100*l.*; in the second, the same bill costs 102*l.* The English merchant would say that, in the first instance, exchange was higher, and in the second, lower.

[1] "Theory and Practice of Banking," by H. D. MacLeod, II. 3.

[2] Tooke's "History of Prices," I. 250.

paper grew wider, although between the years 1803 and 1808 it was no more than 2*l.* 13*s.* 2*d.* per cent. After 1808 it averaged,

| | Price of Gold. £ | *s.* | *d.* | Difference from Mint Prices. |
|---|---|---|---|---|
| In 1809, . . . . | 4 | 10 | 9 | 16⅓ per cent. |
| 1810, . . . . | 4 | 5 | 0 | 9 1/10 " |
| 1811, . . . . | 4 | 17 | 1 | 24½ " |
| 1812, . . . . | 5 | 1 | 4 | 30 " |
| September to December 1812, | 5 | 8 | 0 | 38½ " |
| In 1813, . . . . | 5 | 6 | 2 | 36 1/10 " |
| November 1812 to March 1813 | 5 | 10 | 0 | 41 " |
| In 1814, . . . . | 5 | 1 | 8 | 30⅛ " |
| 1815, . . . . | 4 | 12 | 9 | 18⅗ " |
| 1816, . . . . | 4 | 0 | 0 | 2½ " |
| October to December 1816, . | 3 | 18 | 6 | Under 1 per cent. |
| In 1817, . . . . | 4 | 0 | 0 | 2½ per cent. |
| 1818, . . . . | 4 | 1 | 5 | 5 " |
| 1819 to February, . . | 4 | 3 | 0 | 6⅓ " |
| 1820, . . . . | 3 | 17 | 10½ | |
| 1821, . . . . . . . | | | | Par. |

In 1810 the famous Bullion Committee was appointed. It numbered among its members some of the most distinguished names in the Commons: among others those of Mr. Francis Horner (chairman), Mr. Spencer Perceval, Mr. Tierney, Mr. Parnell, Mr. Huskisson, Mr. Baring, Mr. Grenfell and Mr. Sheridan. Says Henry Dunning MacLeod,[1] "The witnesses examined before the Committee consisted of Bank directors, private bankers, general merchants, and independent witnesses. The directors of both the English and the Irish banks vehemently repudiated the idea that the Bank paper was depreciated; they equally maintained that it was the price of specie that had risen; they both denied that the issues of their notes had any

[1] MacLeod. "Theory and Practice of Banking," Vol. II. p. 23.

effect upon the foreign exchanges, or were in any way the cause of the high adverse exchange, and they both denied that a limitation of their issues would have the slightest effect in reducing the exchange to par. They both maintained that there could be no over-issue of their notes so long as they were confined to the discount of paper of undoubted solidity founded upon real transactions." In a word, *most* of the witnesses examined before the Committee attributed the high price of gold to scarcity arising out of a great demand for use upon the Continent; and if it be true, as it seems cannot reasonably be doubted, that the depreciation of our legal tenders is partly due to a necessity for the compulsory presence in the country of a large stock of coin which would otherwise go abroad, it can hardly be doubted that, in like manner, the depreciation of English Bank-notes was in part occasioned by scarcity and government demand.

But the conclusions and report of the Committee were opposed to the views of most of the witnesses examined before it. The Committee recommended a resumption of cash payments; but admitted, at the same time, that this was an operation of the greatest delicacy, though they thought it could be accomplished in two years. The Parliament thought otherwise, however, and rejected the proposition to return to specie payments in two years by a decisive and even emphatic vote.

The French Revolutionary and Napoleonic Wars were ended in 1815, and from thenceforward to the year 1819 the "Currency Question" was the overshadowing topic of English discussion, until at length in

February of the latter year both Houses of Parliament appointed Committees to inquire into the "State of the Bank," and in April subsequent both Committees reported recommending an early resumption of cash payments. Upon the reports of these Committees Parliament took prompt action, and in May "Peel's bill"—so called because the resolutions for resumption were introduced into the Commons by Mr. Peel, afterwards the second Sir Robert Peel—was enacted into a law. Its provisions were these:

1. The Acts then in force legalizing the Bank suspension were to be continued to the 1st of May 1823, when their operation was finally to cease.

2. "That on and after the 1st of February and before the 1st of October 1820, the Bank of England should be bound, on any person presenting an amount of their notes not less than of the value or price of 60 ounces, to pay them on demand at the rate of 4*l.* 1*s.* per ounce, in standard gold bullion stamped and assayed at the Mint.

3. "That between the 1st of October 1820 and the 1st of May 1821, it should pay in a similar manner in gold bullion at the rate of 3*l.* 19*s.* 6*d.* per ounce.

4. "That between the 1st of May 1821 and the 1st of May 1823, the rate of the gold bullion should be 3*l.* 17*s.* 10½*d.* per ounce.

5. "During the period first above mentioned, it might pay in gold bullion at any rate less than 4*l.* 1*s.* and not less than 3*l.* 19*s.* 6*d.* per ounce; in the second period at any rate less than 3*l.* 19*s.* 6*d.* and not less than 3*l.* 17*s.* 10½*d.* upon giving three days' notice in

the Gazette and specifying the rate; but after giving this notice the Bank was not again to raise the rate.

6. "These payments were to be made in bars or ingots of the weight of sixty ounces each, and the Bank might pay any fractional sum less than 40*s.* above that in the legal silver coin.

7. "The trade in gold bullion and coin was declared entirely free and unrestrained."[1]

But it must not be supposed that there was no opposition to the policy of this enactment, for there was and of a very powerful kind too. The Bank directors protested against it, and submitted to the legislature their views of what the effects of the act must be in the existing commercial and monetary state of the country. They said they could not help thinking the measure one fraught with great risk and uncertainty; and that "they could not venture to advise an unrelenting continuance of pecuniary pressure upon the commercial world the consequences of which it was impossible for them to foresee or estimate;" nor could they take the responsibility of countenancing a measure in which, they said, "the whole community was so deeply involved, and which would possibly *compromise the universal interests of the empire in all the relations of agriculture, manufactures, commerce and revenue.*" The merchants and bankers of London and Bristol joined in a petition against it, which was presented in the Commons by Sir Robert Peel, who entreated the House to pause before the passage of a measure so destructive of commercial interests and with them of every other interest in the country, and

[1] MacLeod, "Theory and Practice of Banking," II. 74.

to collect all possible information upon the subject. The petitioners said that in their opinion the measure would result in *a forced, precipitate and highly injurious contraction of the currency, which would add greatly to increase the pressure of the taxes, to lower the value of all land and commercial property, seriously to affect and embarrass both public and private credit, to embarrass and reduce all the operations of agriculture, manufactures and commerce, and to throw out of employment a great proportion of the industrious and labouring classes of the community.*

On the other hand, the friends of the measure, and conspicuously Mr. Peel and Mr. Ricardo (the latter the distinguished political economist), denied that the resumption would be attended by evil consequences; and Mr. Ricardo declared that the "whole difficulty would be in raising the value of the currency three per cent."

*What Sir Archibald Alison says.*[1]

"The effects of this extraordinary piece of legislation were soon apparent. The industry of the nation was speedily congealed, as a flowing stream is by the severity of an Arctic winter. The alarm became as universal and widespread as confidence and activity had recently been. The country bankers, who had advanced largely on the stocks of goods imported, refused to continue their support to their customers, and they were forced to bring their stocks into the market. Prices in consequence fell rapidly; that of cotton, in particular, sank in three months to half its former level. The country bankers' circulation was contracted by no less than

[1] "History of Europe," Second Series, vol. II. chap. X. p. 144–5, (Blackwood's duodecimo edition, MDCCCLXIV).

five millions sterling ($25,000,000); and the entire circulation of England fell from $232,545,000 in 1818 to $174,385,000 in 1820, and in the succeeding year it sank as low as $142,757,000. . . . . .

"The effects of this sudden and prodigious contraction of the currency were soon apparent, and they rendered the next three years a period of ceaseless distress and suffering in the British Islands. The accommodation granted by bankers diminished so much, in consequence of the obligation laid upon them to pay in specie which was not to be got, that the paper under discount at the Bank of England, which in 1810 had been $115,000,000, and in 1815 not less than $103,300,000, sank in 1820 to $23,360,000! and in 1821 to $13,610,000! The effect upon prices was not less immediate or appalling. They declined in general, within six months, to half their former amount, and remained at that low level for the next three years. Distress was universal in the latter months of 1819, and that distrust and discouragement were felt in all branches of industry which are at once the forerunner and the cause of disaster."

### *What the Bank and the Bankers did.*

The Bank of England and the country banks, in order to resume and sustain a condition of specie payments, at once began a course of vigorous and necessary contraction, reduced their issues in a period of five years by nearly one-half of their whole amount, as the subjoined table will show:[1]

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[1] Tooke's "History of Prices," cited by Sir A. Alison. I have converted English pounds into American dollars at the rate of five of the latter for one of the former.

| YEARS. | BANK OF ENGLAND. | COUNTRY BANKERS. | TOTAL. |
|---|---|---|---|
| 1818 | $130,010,535 | $101,535,000 | $232,545,750 |
| 1819 | 126,263,450 | 78,506,640 | 204,770,090 |
| 1820 | 121,496,700 | 52,881,225 | 174,377,925 |
| 1821 | 101,476,500 | 41,280,900 | 142,757,400 |
| 1822 | 87,323,950 | 42,408,100 | 129,732,050 |

The Bank of England reduced its private securities from thirty-two millions of dollars in 1819 to something more than twelve millions in 1821; and this was the average reduction in discounts made by the London discount houses and the country bankers, and shows how extensively and calamitously the commerce and industries of the country were overwhelmed by the operation of the contraction.

*The Fall in Wages.*

"In all the great stations of the cotton manufacture, as Manchester, Glasgow, Paisley, *the rate of wages has fallen on an average more than one-half*."—LORD LANSDOWNE'S speech, December 1st 1819. "It is not surprising that the Ministers alluded to the suffering which pervaded several branches of manufacturing industry, for, from the papers laid before Parliament, *it appeared that wages in the cotton manufacture had sunk a half within eight months, and in most other trades* in the same proportion."—Sir ARCHIBALD ALISON, History of Europe, Second Series, Chap. X.

*What Mr. Baring said.*

"In looking at this question,"—that is, the facts

growing out of the contraction of the currency,—"it is material to show what is the state of the country in this the sixth year of the peace. Petitions are coming in from all quarters, remonstrating against the state of suffering in which so many classes are involved. *and none more than the agricultural class.* When such is the state of the country in the sixth year of peace, and when all the idle stories about over-production and under-consumption, *and such-like trash*, have been swept away, it is natural to inquire into the state of a country placed in a situation without a parallel in any other nation or time. No country ever before presented the continuance of so extraordinary a spectacle as that of living under a progressive increase in the value of money and decrease in the value of the productions of the people. It appears clear that *from the operations of the currency, we have loaded ourselves not only with an immense public debt, but also with an increased debt between individual and individual*, the weight of which continues to press upon the country, and to the continuance of which pressure no end can be seen."

*What Mr. Doubleday says.*

"We have already seen the fall in prices produced by the immense narrowing of the paper circulation. The distress, ruin and bankruptcy which now took place were universal, affecting the great interests both of land and trade; but especially among landlords, whose estates were burthened by mortgages, settlements, legacies and the like, the effects were most marked and out of the ordinary course. In hundreds

of cases, from the tremendous reduction which took place in the price of land which now took place, the estates barely sold for as much as would pay off the mortgages; and the owners were stripped of all and made beggars."[1]

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[1] "A Financial, Monetary and Statistical History of England," by Thomas Doubleday, p. 271. Mr. Doubleday says further, in exemplification of what is said in the text: "I was myself personally acquainted with one of the victims of this terrible measure. He was a school-fellow, and inherited a good fortune, made principally in the West Indies. On coming of age, and settling with his guardians, he found himself possessed of fully forty thousand pounds; and with this he resolved to purchase an estate, to marry, and to settle for life. He was a young man addicted to no vice, of a fair understanding, and a most excellent heart, and was connected with friends high in rank and likely to afford him every proper assistance and advice. The estate was purchased, I believe, about the year 1812 or 1813, for eighty thousand pounds, one moiety of the purchase-money being borrowed on mortgage of the land bought. In 1822–3 he was compelled to part with the estate in order to pay off his mortgage and some arrears of interest: and when this was done he was left without a shilling, the estate bringing only half of its cost in 1812! Thus, without imprudence or fault of any kind, was this amiable man, together with his family, plunged in irretrievable and inevitable ruin, by the act of a legislature which ought to have protected both, and which was fully warned of the consequences of what it was about to do; but which, in requital, chose to laugh those who warned to utter scorn. My readers must not suppose that this was either an exaggerated or uncommon case. On the contrary, the country teemed with similar examples, and on the commencement of the session of 1823, the tables of both Houses were loaded with petitions, detailing scenes of hardship and destitution appalling in the extreme. As a sample of the whole, I have selected one which most fully exhibits the dreadful effects of this infatuated measure upon the welfare and happiness of the community; and of this petition I here insert as complete an abstract as I can frame. The substance of this very extraordinary document was as follows. It was presented to the Commons by Lord Folkstone, and to the Lords by Earl Stanhope.

"It sets forth—

"1. That the petitioner, having contributed both in purse and person to the maintenance of the state, had a right to expect *protection* of person

*The Effect upon Prices.*

The distress was so great and universal that in 1822, a motion was made in the House of Commons

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and property in return: but that, instead of this, he is ruined by an act of the Parliament.

"2. That he imputes no *intentional* wrong-doing, but grievous error to the Government; yet he hopes the Government will not change error into injustice by persevering in it.

"3. That the petitioner's ruin, as well as that of thousands of other persons, arose from Peel's bill for returning to cash payments; but that few cases can exceed his in hardship.

"4. That the petitioner and his father were wine merchants, and made a large fortune, with part of which, in 1811 and 1812, they bought land.

"5. That they bought the estate of Northaw, in Herefordshire, for 62,000*l.* and laid out 10,000*l.* more in improvements, investing in all 72,000*l.*

"6. That in 1812 they bargained with John A. Trenchard, Doctor of Divinity, for the estate of Pontrylas, for which they agreed to give 60,000*l.*, paying 5555*l.* as a deposit. That the title not being satisfactory the result was a suit at law, which was not decided until 1819, when judgment went against them, awarding a gross sum of 71,957*l.* 19*s.* 5*d.* to Dr. Trenchard, being purchase-money and interest.

"7. That in the meantime petitioners had experienced heavy losses in trade, and could not pay this sum; and, therefore, gave Dr. Trenchard a mortgage on *both* the estates of Northaw and Pontrylas for 65,000*l.*

"8. That after 1819, when the suit ended, petitioner and his father paid 5000*l.* in part of the debt, and 8000*l.* interest up to 1821.

"9. That on the suit ending in 1819, they received up to 1821, out of the estate, for rent and wood, 3410*l.*

"10. That in July 1821, the *two* estates were offered for sale, but *would not bring the sum for which* they were *mortgaged.*

"11. That in 1821 petitioner and his father were *bankrupts.*

"12. That Dr. Trenchard then got possession of *both estates,* and gave notice to *foreclose the mortgage.*

"13. That petitioner and his father thus actually paid Trenchard 18,555*l.*, and have only received out of the estate 3410*l.*: and they are now about to lose both the estates of Pontrylas and Northaw; the last of which cost 72,000*l.*

"14. That Trenchard, on the other hand, has received in cash 18,555*l.* with all the rents of Pontrylas from 1812 to 1819, and that he is now

for a committee to consider the effect of the "Act for Resumption on the Agriculture, Commerce and Manu-

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about to get the *two estates*, with all arrears of rent from February 1820 in lieu of his debt of 60,000*l.*

"15. That petitioner's assignees are praying the Court of Chancery not to *allow this;* for that, if it be granted, the result will be that Dr. Trenchard will have received all the rents and profits of Pontrylas estate, except for two years, 1470*l.* for timber, 18,555*l.* in cash from the petitioner, and in addition to his own original estate of Pontrylas, *he will also have got the other estate of Northaw, which cost* 72,000*l.*

"16. That petitioner and his father had other estates in Middlesex, Essex, and Hampshire, which cost 36,000*l.*, but have now been sold for 12,000*l.*! That by the depression in trade they became bankrupts. That petitioner's father died in 1822, of a broken heart, and that he is himself a ruined man, with seven children of his own, ten of his brother's, and seven of his sister's, all depending on him.

"17. That petitioner, therefore, prays for an EQUITABLE ADJUSTMENT of this and all similar contracts.

"This petition was that of Charles Andrew Thompson, of Chiswick, in the county of Middlesex, and is certainly calculated to tear in pieces, almost, the heart of every just and sensible man that reads it. What effect it produced upon Peel, Ricardo, and the Houses I cannot say; but the country throughout was in a state of deep agitation, and remonstrance after remonstrance poured in upon the legislature."

In 1822 the number of land-owners in England was 165,000; in 1861, according to the census of that year, 30,766 persons (15,131 men and 15,635 women) were the owners of the whole land surface of England!—that is, says Professor Kirk in his little volume called "Social Politics," "one land-holder to every 652 persons. That is, one human being has the power, if he so chooses, to deny space on the earth's surface to 652 of his fellow-men. This does not put the matter so strongly as it would stand if we had the means of showing in how few hands by far the largest portion of the soil is held. The matter was still worse in Ireland, where 8412 in a population of 5,798,967 held the ownership of all the lands, while in Scotland it was even more deplorable than in Ireland; 2975 persons at that time, held all the lands of that country; which was one land-owner to every 1030 other persons!" "*But this is as nothing,*" says Professor Kirk, "WHEN WE REMEMBER THAT ABOUT HALF OF THE WHOLE KINGDOM IS OWNED BY NOT MORE THAN TWELVE PERSONS!" Social Politics, pp. 35, 36. How this tremendous concentration of land in the hands of the few was brought about is *in part* explained by the extract from Mr. Doubleday's book.

factures of the Kingdom." In the course of the debate upon that motion Mr. Attwood (the member for Borough-Bridge)—the same unbelieving gentleman who had been induced to withdraw from the House in 1819 that the vote for resumption might be unanimous—made a speech, in the course of which he said: "In the year 1818 the average price of wheat was 84*s.* per quarter; and if the present price be taken at 47*s.*, that is a reduction on wheat of 37*s.*, which is equal to a fall of 45*l.* in every 100*l.*, or *forty-five* per cent. The price of iron in the year 1818 appears to have been 13*l.*; that price is now 8*l.* per ton, and is equal to a reduction of about *forty* per cent. The price of cotton in 1818 was 1*s.*, and it has sunk to 6*d.* per pound, which is a fall of *fifty* per cent. on cotton. Wool in the year 1818 sold for 2*s.* 1*d.* which now sells for 1*s.*1*d.*, and there is, therefore, in wool a fall of nearly *fifty* per cent. The fall that has taken place, therefore, since 1818 in iron, in cotton and in wool, is as great as the fall in wheat. These are the great staples of commerce, and the average of the fall upon all three is *forty-five* per cent., being exactly the reduction in grain. This is recommended to the consideration of those who tell us of over-production and an excessive cultivation of corn-land. But I refer also to a table compiled by Mr. Tooke, which contains a list of the principal articles of commerce and manufactures, *thirty in number*, which exhibits the *same fall of forty-five per cent. in all the articles* except indigo, the price of which has been sustained, as I am informed, by circumstances of an exceptional kind. The fall, therefore, is not peculiar to the products of agriculture, but

is universal and has embraced every article of industry and every article of commerce.

"This fall of prices must have been produced by one of two causes: either the quantity of all commodities has increased, or the quantity of all money has diminished. One of these must of necessity have occurred, for the proportion is altered. Are we to believe that great changes have suddenly taken place in the productive powers of nature or the resources of art, so as to account for this sudden and universal fall in prices? *Is it likely that production in all the branches of industry, agricultural and manufacturing, would go on for three years constantly increasing in the presence of a constantly diminishing price?* Evidently, it is not so. * * *

"In the midst of this fall of prices, what operation in business could proceed without loss or ruin? There has been no form in which the capital of the merchant, none in which the capital of the manufacturer, could be invested without the half of it being sacrificed during this calamitous period. We have been thrown back upon a condition of society in which all industry and enterprise have been rendered pernicious or ruinous; and where no property is safe unless hoarded in the shape of money or lent to others on a double security."

*Denials.*

The friends of resumption denied that the great fall in prices was due to a contraction of the currency. They had vehemently insisted prior to the passage of Peel's bill, that excessive issues were the cause of high prices and refused to stand by the logic of that position

(which was of course the true one) by admitting that low prices must result from extensive contraction. The paper-money advocates stood upon a similar false ground; they had refused to admit that expansion was the cause of depreciation and high prices, but were swift to charge that excessive contraction was the cause of low ones!

" *Over-Production.*"

The bullionists said that the prevailing distress was due to "over-production" and "under-consumption;" phrases which Mr. Baring justly denounced as *trash.*

" That a general reduction in the price of all commodities," says Mr. Joplin,[1] "amounting to nearly one-half, should take place in three or four years from increased production, was inconsistent with all experience; and it would not only have been generally known as the cause had it been true, but it would have been felt as beneficial. If people had found themselves poorer in money they would have been richer in money's worth—in the necessaries and luxuries of life.

"The idea, however, that things were cheaper from abundance alone was confined chiefly to speculative inquirers, and did not extend to producers. The agriculturists in particular, by whom excessive production would be more easily traced, had it occurred, were unable to account for the fall on any such principle.

" But those appearances which were unaccountable on the one principle were the natural result of the

[1] "History and Analysis of the Currency Question," by T. Joplin, p. 73.

other. If the fall was produced by a contraction of the currency it would become general and present the results which Mr. Attwood pointed out. Hence it was rendered clear by that gentleman that the fall did proceed from the operation of the currency. *His argument was unanswered and unanswerable.*"

*The Effect upon the Public Revenues.*

In the eight years between 1815 and 1821 (and those years inclusive) the British Exchequer applied in reduction of national debt $640,000,000; in the ten years succeeding only $245,000,000 were so applied; and in the next ten years there was a deficiency in revenue and an *increase* in debt amounting to more than thirty millions of dollars. William Cobbett said that one effect of the resumption would be to make the national debt permanent; and fifty years of experience seems to verify his prediction.

*The Political Effects.*

The political effects of the prevailing distress were extraordinary. Great meetings were held throughout England and Scotland during the whole of the summer of 1819; and on the 16th of August, 60,000 people—among them women and children—assembled at *Peterloo* near Manchester, and a collision took place between the crowd and the troops called there to preserve the peace, in which a number of persons were killed and many wounded. This affair created everywhere a prodigious excitement, and meetings were held at Birmingham and Leeds, in Westminster, York, Liverpool and Bristol, attended by great multitudes, who carried

flags inscribed with the word "vengeance." A serious riot occurred at Paisley and another at Ely; and the government was compelled to resort to military measures for the preservation of the public peace. In 1820 the "Cato Street Conspiracy" was discovered; the design of which was the murder of all the King's Ministers, and it was frustrated only through the cowardice of one of the gang of conspirators who betrayed his associates. Military training went on among the disaffected in various parts of the country during this year (1820), and a general uprising among the workmen was apprehended. A large military force was provided to meet these alarming symptoms. "On Sunday morning, the 2d of April," says Sir Archibald Alison,[1] "a treasonable proclamation was found placarded all over the streets of Glasgow, Paisley, Stirling and the neighboring towns and villages, *in the name of a provisional government* calling on the people to desist from labour; on all manufacturers to close their workshops; and on all the friends of their country to come forward and effect a revolution by force, with a view to the establishment of an entire equality of civil rights. Strange to say, this proclamation, unsigned and proceeding from an unknown authority, was widely obeyed. Work immediately ceased; the manufactories were closed from the desertion of workmen; the streets were filled with anxious crowds eagerly expecting news from the South; the sounds of industry were no longer heard, and two hundred thousand persons in the busiest districts of the country were thrown into a state of compulsory idleness by the mandates of an unseen

[1] "History of Europe," Second Series, Chapter X.

and an unknown power." The Government took prompt action in this serious conjuncture, and in the course of a few days assembled 5000 volunteers in Glasgow—of whom 2000 were horse—with eight guns. These preparations overawed the insurgents, and no dangerous outbreak occurred. Three of the ringleaders were executed, however, and seven or eight were transported.

The Government, warned by these events, increased its precautions, and before the end of the year had augmented the volunteer force to 35,000 men. "Without doubt," continues Sir A. Alison, "this powerful volunteer force, organized especially in the manufacturing districts at this period, and the decisive demonstration it afforded of moral and physical strength on the part of the Government, was the chief cause through which Great Britain escaped an alarming convulsion." This was done, however, at a very considerable expense: a million and a half a year.

### *Culmination of the Distress.*

"But the material distresses had increased and were increasing with a rapidity which outstripped all calculation, and had now reached a height which compelled investigation and threatened to bear down all opposition. The great fall in the price of the whole articles of agricultural produce which had gone on without intermission from the monetary bill of 1819, and had now (1822) reached fifty per cent. upon every product of rural labour, had spread at length to every other species of manufacture. All, sharing in the influence of the same cause, exhibited the same effect. The

long continuance of the depression and its universal application to *all* articles of commerce, excluded the idea that it was owing to a glut in the market, or to any excess of trading in particular lines of business, and furnished a valuable commentary on the predictions of Mr. Ricardo and Mr. Peel that the change of prices could not by possibility exceed three per cent. The subject accordingly engaged the repeated and anxious consideration of both Houses of Parliament, and was made the topic of frequent and luminous debates of the highest interest and importance, and at length forced a change of the utmost moment in our monetary system." [1]

*"A Change of the Utmost Moment.*

Prior to the suspension of cash-payments by the Bank of England the Bank had not been allowed to issue notes of a less denomination than 5*l.* (or $25) just as, for a period after the United States supplied the currency of the country, the Federal Treasury was not allowed to issue notes of a less denomination than five dollars. But this limitation upon the Bank was attended with serious practical inconveniences, and was at length repealed and the Bank was permitted to issue notes as low as 1*l.* (or $5). The effect of this authorization was that very soon a large proportion of the circulation was in one-pound notes. By Peel's bill of 1819 the privilege of issuing these small notes was withdrawn both from the Bank of England and the country banks; and it was the necessity of sup-

[1] "History of Europe," Second Series, Chapter X.

plying a large fund of coins to replace the small note circulation, thus driven out of existence, that was one great cause of the contraction of the currency.

The act by which this requirement of Peel's bill of 1819 was repealed was on the 2d of July 1822 introduced into Parliament by Lord Londonderry,[1] "who," said Sir James Graham, "did not treat the question as one of a fluctuation of prices, or want of means of consumption, or of superabundant harvest. Lord Londonderry said plainly and directly, '*this is a question of currency; the currency of the country is too contracted for its wants and our business is to apply a remedy.*'"

Lord Londonderry's bill permitted the issue of one and two pound notes for a period of ten years longer, and made the one-pound notes of the Bank of England a legal tender everywhere except at the office of the Bank itself. "This Act," says Sir A. Alison, "coupled with the grant of 4,000,000*l.* Exchequer bills, which Government was authorized to issue in aid of the agricultural interest, had a surprising effect in restoring confidence and raising prices; and by doing so, it repealed so long as it continued in operation the most injurious parts of the Act of 1819." For—although the Bank of England did not avail of the privilege of the Act—the country banks issued the small notes profusely, and thus extensively and at once relieved the pressure upon the community, as was manifested by the prompt revival of industry and trade throughout the whole kingdom.

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[1] A member of the then existing Cabinet.

### *The Conclusion of this Matter.*

These are, in as brief detail as it has been possible for me to compress them, the more important circumstances attending upon the resumption of cash payments by the Bank of England and the country banks of Great Britain in 1819–1821. They have a great interest for our people at this time, for they are types of the calamities which will surely result from premature action in the direction of resumption among ourselves. The commercial and credit systems of Great Britain and the United States are so exactly identical in all important particulars and almost in minute detail, that there is no fact or consequence in English financial history which has not an important bearing upon our own action.

Whether our rulers will profit by the disastrous experiences of Great Britain, remains to be seen: but I confidently predict, *that the party Democratic or Republican or any other whatever its name, which forces a resumption of specie payments prior to the practical extinction of the national debt, whether that be in ten years or thirty, will be trampled to death under the feet of the people.* Let the events of the future approve or condemn me for saying this thing!

### *An Important Question.*

At what volume of paper circulation can specie payments in the United States be safely resumed and sustained? This is a question of the weightiest concern to every commercial and industrial interest in the country.

There seems to be a pretty general concurrence

among writers upon finance that the coin provided for redemption should not be less than 33 per cent. of the circulating notes to be redeemed. But experience warns us that a coin reserve of 33 per cent. is not adequate to all the monetary exigencies to which commercial countries are subject. Three times since 1844 the Bank of England has been upon the very verge of suspension, with a specie reserve approximating more nearly to one-half than to one-third of the note circulation! and it is strictly within the range of possibility, as experience proves, that a bank with an outstanding note circulation of one million of dollars, and a specie reserve of three-quarters of a million, and a deposit account of a million and a half, might be bankrupted without being called upon to redeem a thousand dollars of its circulating notes. On the 3d of December 1847 Mr. Francis Baring made a speech in the British Commons in the course of which he said, "That the amount of bullion in the Bank of England on the 12th of September 1846 was $81,770,000, and that on the 17th of April 1847 it was reduced to $46,650,000; being a diminution of $35,120,000 (or nearly one-half). Taking the same dates with respect to the circulation of notes it was found that on the 12th of September the amount outstanding was $104,910,000, and on the 17th of April 1847 the amount outstanding was $106,240,000, being an increase of $1,230,000!" From which it appeared that while the specie in the Bank had been reduced in amount over $35,000,000, the note circulation had increased nearly a million and a quarter! the explanation of which was very simple and obvious, though

Mr. Baring did not hesitate to say that he had never entertained the idea that such a thing was possible.

But if it be admitted that a coin reserve of 33 per cent. is a safe one, the inquiry recurs at what volume of paper circulation can we resume and sustain a safe condition of specie payments. The present legal tender circulation is $382,000,000 and the authorized National Bank circulation is $354,000,000; added to these are about $40,000,000 of fractional currency: making a total of $776,000,000. It is obviously certain that no resumption is possible upon so vast a superstructure of paper; and it is equally certain that we could not resume if the currency were reduced a hundred millions lower; for in November 1867 Mr. McCulloch had contracted it down to $688,000,000, and so far as the practicability of the thing was concerned we were as far from resumption then as we are now. Without multiplying words, we must reduce the paper circulation to a sum not in excess of that authorized to be issued by the National Banks, and I do not for a moment believe, even if we should exhibit the fortitude necessary to resumption upon that relatively small amount of notes, that we could sustain it. The whole bank-note circulation of the British Empire was in 1872 slightly over $218,000,000, and the metallic circulation was at the same time $520,000,000; and yet, says Mr. Patterson,[1] "when the stock of gold in the Bank of England is at its ordinary sum (say about 7 $~~6~~0,000,000), the export of ten or fifteen millions of gold suffices to produce a dearth of money and a serious commercial crisis." If, therefore, such serious conse-

[1] "Science of Finance," p. 200.

quences are possible to result in a country where the whole note circulation is but $218,000,000, and the supply of the precious metals is so great as five hundred millions or more, what is to be apprehended in America where it is proposed to have a convertible note circulation of $354,000,000? But the example of England is not the only one which offers us warning; for Mr. Tooke has shown that in 1855 and 1856 the Bank of France resorted to extraordinary measures to sustain itself, even though its coin reserve was at no time less than one-third its circulation. The condition of the Bank in January 1854 was this—circulation $130,000,000; bullion $60,000,000. Between this last named date and the 12th of May subsequent the bullion had increased to $80,000,000 with no change in the circulation. In October 1855 the note circulation still remaining at one hundred and thirty millions the bullion had fallen to $45,000,000; March 31st 1856 the circulation had fallen to $125,000,000 and the bullion to $42,000,000. In October of the same year the sum of the bullion had fallen to $32,000,000; and meantime, between the 1st of July 1855 and the 11th of December 1856, the Bank had purchased and imported into France gold to the amount of $136,000,000! at premiums amounting to over two millions. During the whole period, although the paper circulation was substantially stationary, the specie procured by the novel means just recited was drawn from the vaults of the Bank and exported as rapidly as it was brought in! and all this notwithstanding the well-known fact that the metallic circulation of the country at this very time was not less than five hun-

dred millions. From which it is not difficult to see that if the Bank had been subjected to a "run" or any even unusual demand for redemption of its circulating notes, in addition to the other demands made upon it, suspension would have become inevitable.

"And, moreover," remarks Mr. Tooke, "the proceedings (of the Bank of France in thus buying coin in and importing it from foreign countries) excited notice; and the directors of the Bank of England *were not backward in protecting their own establishment, not merely by raising the rate of discount in order to render the Paris operation more costly; but also by adopting other precautions against the class of bills known or believed to be employed as a means of artificially withdrawing gold to the Bank of France.*"

No doubt under our National Banking system we might support at a coin level a larger note circulation than is possible either in France or in England, but it is *not* doubtful that so vast a superstructure as $354,000,000 of notes would require a solider foundadation than $120,000,000 of specie.

But if we admit that so improbable a thing may be, we create an extraordinary demand for $120,000,000 of gold;[1] and as the fractional currency must also be replaced by small coins for the current "small change," we may estimate that the whole demand for gold and silver, within say three years, may be stated thus:

[1] But a demand for one hundred and twenty millions of gold, is, in accordance with well-known laws, equivalent to a demand for twice as great a sum. I assume also that when resumption is determined upon the period within which it is to be accomplished cannot safely be protracted beyond three years.

| | |
|---|---|
| For redemption of notes, . . . . . . . | $120,000,000 |
| In substitution for fractional currency, . . . | 20,000,000 |
| Total, . . . . . . . . . . | $140,000,000 |

No one will contend that we can safely provide a less sum than this in addition to the stock already in the country, which may be stated as not exceeding 2 $1~~0~~0,000,000.

What will be the effect of a demand for one hundred and forty millions of gold coin or bullion within a period of three years?—for certainly, when we once begin the process of resumption it will have to be short and energetic in accomplishment if it is to be accomplished at all. I will attempt to show the effect by contrast, and I select the pig-iron interest of the country as the one best adapted to the purposes of my illustration:

The whole product of pig iron in the United States in 1873 was 2,868,000 tons. The number of stacks in blast on the 1st of January 1874 was 410, and if this was the average number in blast during the preceding year, it would imply that the number of workmen employed was forty-one thousand, reckoning 100 men (including workers in the mines) as the average to each stack. The whole number of stacks in twenty-five states on the 31st of December last was 662, with an estimated productive capacity of 4,500,000 tons per year; and if all were in blast up to their supposed powers they would employ 66,000 workmen. The estimated value of the entire product for 1873 was $118,000,000.

Suppose now a demand should arise for an increased product of pig iron of a million and a quarter

tons per annum within say three years and worth in the aggregate say $140,000,000: what would be the effect? It would act as an instant stimulus not only to the pig-iron industry but there is no industry in all the land which would not feel its life-giving impulse. There would be no contraction of the currency but a rise in the value of it even at its extended volume; it would bring into active use all that portion of our circulation which is now hoarded and dormant; it would give an instant activity to all our commerce; the banker, the merchant, the carrier, the agriculturist, the labourer—there is no member of the society, no matter how humble his station, who would not feel the quickening and beneficent influence of such a demand. It would be simply glorious: it would put half a million people to work, and the idleness and suffering of to-day would be transformed into industrious activity and rejoicing to-morrow, and there is not a human creature within the borders of the Republic who would not be happier, for it could not possibly inflict injury upon any one but would be a source of good to all.

Let us suppose on the other hand an unrelenting demand within three years for one hundred and forty millions of gold and silver, or an average say of forty-five millions a year: what would be the effect of such a demand?

The answer to this question will depend upon the uses to which the metals are to be devoted.

If the demand arise on the part of goldsmiths for converting them into manufactured articles, the effect would be a rise in their value and in their price at the same time that it would raise the value of our

currency. The reason is obvious. Every demand which has for its motive an additional industrial activity raises the value of money.

But suppose a deficit in the gold-revenues of the Federal Treasury and a demand for forty-five millions of coin each year for three years for the payment of interest, say upon public debt: what would be the effect of a demand of this nature? Without attempting to anticipate the measures the Government would probably adopt in order to procure the coin, I confine my inquiry to the effect such a demand would have upon the value of gold. No one will doubt, I think, that the known necessity of the Government to provide a hundred or more millions of coin in each year for the payment of interest on public debt exerts a powerful influence not only in sustaining a premium but in keeping it at a figure at least double what it would be if that necessity were removed. A demand for forty-five additional millions in each year would certainly augment the current premium anywhere from five to fifteen per cent. A demand for use as money would be essentially different from the effect of a like demand for its transformation into manufactured articles, and would not have so stimulating an influence upon its value; for the reason that in the first instance the gold would be wholly withdrawn from use as money, thereby raising the value of the whole mass remaining in circulation, while in the second it would only be temporarily diverted from its accustomed channels and would soon be returned into them.

But in neither of these cases would there be any disturbance in the course or depreciation in the value

of our paper circulation; on the contrary its activity would be increased and its value enhanced.

Let us now consider the effect of a demand for gold to serve as a basis for a convertible bank-note circulation. You will allow me here to call your attention to the most important consideration connected with this vitally important subject and one which is persistently overlooked by the bullionists (I may say by their opponents also), and yet its weight in the determination of the whole matter is paramount. I beg you carefully to observe, then, that this question of resumption is not one of a greater or less premium upon coin whether that premium be two per cent. or twenty; nor is it one of a merely "inconsiderable excess of paper-notes."[1] But the true question is this:

[1] And hence the statements made by Professor Bonamy Price in New York on the evening of the 30th of November 1874, that "the history of resumption of specie-payments in England shows that no large previous accumulation of gold will be required for the operation" of resumption in the United States, and that the same "history of resumption in England and the probable actual state (what *is* a "probable actual state"?) of the American currency relative to the wants of the American people warrant the belief that the excess of paper-notes is not considerable and will not require a large amount to be redeemed and cancelled," *are unsound*. It might be well for Prof. Price to define what he means by "no large previous accumulation" and that "the excess of paper-notes is not considerable." In point of fact the excess of paper-notes is *very* considerable, as experience will infallibly demonstrate when the "operation of resumption" is a fact accomplished. It is four hundred millions or four hundred and fifty millions in excess relatively to the power of the country to resume and sustain specie payments.

Prof. Price spoke also in commendation of the "Automatic Currency Machine" in the Bank of England. But the *best* English authorities—and among these I name conspicuously Mr. Tooke and Mr. Gilbart—denounce that automaton as a wretched piece of unwisdom. On page 28 *ante* of this pamphlet will be found the statements of the Lords' Com-

WHAT IS THE VOLUME OF BANK OR OTHER NOTES WHICH THE COUNTRY CAN PERMANENTLY SUSTAIN UPON A SPECIE-PAYING FOUNDATION? We must fix with an approximate degree of certainty the amount of paper-notes which can at all times be relied upon as instantly convertible into coin. When we have fixed this limit we may safely say we have solved the question of resumption. Until we have fixed this limit we can safely say nothing of the sort.

You have already seen that the banks of Great Britain with a paper circulation of only $218,000,000 have been surrounded with extraordinary restrictions intended to secure the convertibility of their circulating notes under all circumstances, and that, notwithstanding the enormous metallic currency of the Empire, the drain of a few millions is sufficient to excite a commercial crisis; and you have seen also the remarkable measures adopted by the Bank of France in 1855 and 1856 in order to support a note circulation of only $130,000,000. [On the 7th of April 1870 not long before the breaking out of the war between France and Germany the Bank of France had an outstanding note-circulation of $280,000,000 and held coin and bullion to the amount of $251,000,000. On the 5th of October 1871 (after the war was ended) the circulation of the Bank was $396,000,000 and the coin and bullion in its possession amounted to $125,000,000, and specie-payments were suspended. On the 23d

mittee in 1848 touching the practical working of that act, and any one very deeply interested in the matter, who has access to Mr. Tooke's "History of Prices," will find in the fourth volume of that invaluable book a complete exposition of the whole operations of Peel's bank scheme.

of October 1873 the note circulation was $598,000,000 and the specie $145,000,000, and the Bank was still under suspension. On the 25th of June 1874 the note circulation was reduced to $495,000,000 and the stock of specie increased to $235,000,000. But that "most impregnable organization of credit on a grand scale the world has ever seen,"[1] with a specie reserve approximating to nearly *fifty* per cent. of its circulating notes was not yet sufficiently impregnable to resume, although its *whole* liabilities for notes and deposits were but $580,000,000 while its means of payment were in specie $235,000,000, loans to the government $173,000,000 and private discounts $170,000.000: total $578,000,000. On the 1st of August last the circulating notes of the Bank amounted to $510,-000,000 and its specie to $250,000,000. This is a very remarkable condition of affairs and illustrates that in France at any rate the question of specie-payments is not one of "a small previous accumulation of gold" nor yet of "an inconsiderable excess of paper-notes!"] It will not be thought dogmatic in view of these examples to repeat my strong conviction (which is warranted also upon the circumstances of our commerce, internal and external) that we can *not* support a convertible circulation of $354,000,000. My object at this place, however, is to arrive approximately near the aggregate of contraction we must undergo before resumption can be effected. If it be conceded that a paper circulation of $354,000,000 can be

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[1] New York Tribune July 13th 1874. All these facts relating to the Bank of France are made up from three different articles that have appeared in "The Tribune."

sustained upon a specie foundation, and that a specie reserve of 33 per cent. is sufficient to sustain it, we come to inquire what effect *a contraction of four hundred and twenty millions of dollars will have upon the destinies of the country?* But is it necessary to pursue an inquiry based upon so tremendous a decrease in the current medium of exchange? The simple statement of this unavoidable preliminary to resumption involves all the consequences of a vastly contracted production, of an extensive and most disastrous fall in the prices of all commodities and of the universal wages of labour, of ships out of commission, mines closed, factories silent, storehouses deserted, lands untilled, working men idle; a decline in the public revenues while taxation is kept up or increased to meet deficiencies; the pressure of taxes and of debts between man and man doubled,—in a word suffering everywhere and prosperity nowhere. When prices under this accumulation of calamities and sufferings shall have fallen below the level of prices in Europe, then gold and silver will flow hither from foreign countries and the products of our own mines will stop west of the Atlantic Main. It may be even profitable for foreign bondholders to flood us with our own bonds, which will retard the time of resumption; but sooner or later there will of course be an end of the agony. The banks meantime will hoard the precious metals till they have accumulated a fund sufficient for resumption,—but long before all this happens, *the party which confers upon the country the blessings of a convertible currency will be buried in the grave out of which there is no resurrection!* If I am sure of nothing else I am sure of *this.*

Now all this may be the merest declamation based upon the most unwarranted assumption, but it will be difficult to show that it is so. Dr. Johnson says that experience is the test of truth and constantly overthrows men's theories, and assuredly if anything has been demonstrated by financial experience it is that a sound convertible note circulation of $350,000,000 is an absolute impossibility in any commercial country. It is the business of those who say that the question of resumption is one "of a small previous accumulation of specie" and an "inconsiderable excess of paper notes," to furnish to the people the grounds upon which they rest their faith. Let them quit the region of indefinite assertion and put themselves upon the foundation of facts, for "facts speak," and the question is too vital to warrant us in proceeding upon mere speculation. We must not cast anchor in the midst of the clouds.

*But* ———

But if what precedes is warranted upon fact, it would be the part of wisdom to pause and take account of our surroundings. Those who talk of resumption, whether they be conductors of public journals or members of Congress or "political economists" or party conventions, seem generally to concede that the operation must be effected so soon as can be done "without injury to the business interests of the country." But there *never* will be a time when we can resume without more or less injury and suffering. The real business in hand is to fix upon that time when the necessary evils which must flow from resumption can be reduced to the minimum, and when the people will

submit to them with patience because unaccompanied by a sense of public injustice.

*The First Step.*

In a pamphlet[1] of mine printed recently (although written nearly three years ago) I said that the payment of the public debt was a policy commended alike by National Duty and by National Honour. The path to safe and permanent resumption lies exactly in this direction—*the payment of the public debt.* Aside from the obligation the country is under, upon general principles, to pay its debts, that obligation is doubly strong in view of the wide injustice resumption would inflict if effected before the public debts are substantially extinguished. The reason is easily stated : In 1860 the people of the United States supported all their governments—federal, state and municipal—upon a taxation of less than two hundred millions of dollars, but in 1870 the aggregate taxation was *six hundred and ninety-one millions !* a difference of nearly five hundred millions of dollars : that is to say, more than one-ninth or between eleven and twelve per cent. of the whole income of the country is extracted from the people for the support of government and payment of interest on public debt! There is no reason to suppose that the taxes are less now than they were in 1870, but there is very solid ground for the belief that they are greater ; and they are exclusive of the support of churches, private charities and private schools : nor is

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[1] "A Brief Account of the Finances and Paper-Money of the Revolutionary War:" John Campbell & Son, publishers, 740 Sansom street, Philadelphia.

there the slightest ground for expectation that under a specie-paying system the taxes would be at all reduced in amount. What *is* certain is, that their pressure would be enormously increased—perhaps even doubled.

It seems very clear, then, that specie-payments cannot now be resumed without inflicting the most oppressive injustice upon tax-payers.

The duty of paying our public debts cannot be too strongly urged. It is the *point d'appui* from which all operations towards specie-payments must diverge. Surely, when the pressure of the taxes is reduced from between eleven and twelve per cent. to four or five per cent., the loss and suffering incident to resumption will be immensely lessened, and the people will bear the hardships which the surgery of resumption will infallibly inflict with greater fortitude because unaccompanied, as I have already said, with a sense of public injustice and oppression.

It is not worth while to enlarge upon the effects of resumption upon debts of private corporations and between man and man. It will be time enough to talk about *them* when they begin to be felt; and Congressional supporters of specie-payments, who desire continued public service, will have lively times in explaining to those whose suffrages they seek the subtle operations of "over-production" and of "under-consumption." The people will perfectly understand the latter but will doubtless ask information respecting the former!

*What Ought to be Done.*

The continued depression of industry and commerce is due not to financial disorder but to financial uncertainty. The clamours of impracticable hard-money men and of impracticable inflationists are equally effective to retard the restoration of the confidence which is so necessary to the revival of credit. There is abundance of money for all our uses, and if resumption be now impossible on one hand inflation would be utterly impolitic and unwise on the other. The bottom difficulty lies here—That in the wretchedly unsettled state of our financial policy judicious men with money are afraid to lend and judicious men without money are afraid to borrow; for an Act of Congress might ruin the security of the lender and overwhelm the enterprise of the borrower. This is indeed the fatal quality and defect of paper-money that it is the creature of the legislature and that it requires extraordinary courage and vigilance to confine it within legitimate bounds. But he is a slanderer of the people and of republican institutions who says that in America we lack the courage and the virtue necessary to restrain our paper issues within proper limits. The single and overwhelming want of the hour is simply A POLICY. Let Congress enact specie-payments if that be the road to certainty and prosperity; or let the people be pledged that until the National Debt is reduced to $300,000,000 there shall be no legislation for resumption. Let us have an end to fruitless and damaging agitation. If the country could be assured that for a period of ten years there would be no increase in the volume of the currency and no legally-enforced de-

crease, industry would throb with a new and vigorous life; the banks and the money-lenders would open their coffers to the promotion of legitimate enterprise, and we should soon see what is so earnestly to be desired the labour of the country fully employed and the remembrance of past needless sufferings washed out and forgotten in the midst of present contentment and prosperity.

THE END.